

COVID-19 RESPONSE
SMALL BUSINESS DEBT RELIEF ACT OF 2020
Senators Chris Coons (D-Del.) and Ben Cardin (D-Md.)

THE PROBLEM. Small and midsize businesses in industries heavily impacted by coronavirus—such as travel, tourism, and hospitality—are experiencing dramatic cash flow problems. SBA borrowers in the 7(a), 504, and microloan programs are disproportionately in industries heavily impacted by this crisis. By volume, hotels and restaurants are by far the two largest industries represented. The government is ultimately responsible for guarantees on all of these loans, and has a vested interest in averting default. Altogether, these SBA programs provide more than \$120 billion in current outstanding credit to small businesses.

THE SOLUTION. With its existing authority, the SBA will pay the principal, interest, and fees on all products guaranteed by the SBA—specifically the 7(a), 504, and microloan programs. Congress will appropriate \$16.8 billion for this relief fund, whereby the SBA will make payments on behalf of small business borrowers to cover 6 months of payments. The payments by the SBA are mandatory for all SBA loans. Over the next year, new borrowers are also be eligible for an equivalent six months of relief.

The bill also encourages banks to provide further relief to small business borrowers by enabling them to extend the maturity of existing loans beyond existing limits; and it enables small business lenders to assist more new and existing borrowers by providing a temporary extension on certain reporting requirements.

JUSTIFICATION. Banks on their own have the ability to offer deferrals of up to three or six months for SBA borrowers. Unfortunately, banks exercise that option on a fairly limited basis. Even in thick of the financial crisis, the share of 504 loans in deferment reached only 3-4%, according to the SBA. Furthermore, a loan deferral without support leaves small businesses with a large amount of accrued interest once they come out of deferment, for which they'll likely be poorly equipped to handle as our economy attempts to recover from a likely recession.

Under this proposal, the federal government is stepping in to provide relief for all SBA borrowers. Neither banks nor the SBA has to identify which borrowers need the aid. Furthermore, the policy complements the set of enacted and proposed ideas, which primarily focus on offering new loans and grants. This proposal is focused on helping small businesses with existing debt survive the crisis. Finally, Congress could easily extend the program for additional months, based on the length of the crisis.

SUPPORT. Original cosponsors of the Small Business Debt Relief Act are Senators Amy Klobuchar (D-Minn.), Tammy Duckworth (D-Ill.), Ron Wyden (D-Ore.), Maria Cantwell (D-Wash.), Ed Markey (D-Mass.), Jeanne Shaheen (D-N.H.), Jon Tester (D-Mont.), and Kirsten Gillibrand (D-N.Y.). The bill is endorsed by the National Association of Government Guaranteed Lenders and the Friends of the SBA Microloan Program.